

Asia Vietnam
Mid/Small Caps

3 April 2008

Tan Tao Investment Industry

Reuters: **0386.HK** Bloomberg: **386 HK**

First mover advantage

First-mover advantage

Though the concept of investing in industrial parks has been around for decades, ITA has been the industry pioneer and has built a highly successful business model by acquiring a strategic land area and building high-quality industrial parks. The Tan Tao Industrial Park, the company's flagship development, is just 12km away from central Ho Chi Minh City, the heart of Vietnam's industrialization.

Financial highlights

ITA reported strong growth in 2007 with VND918.3bn in sales (+160.3%, YoY) and VND381.2bn in net profit (169.8%, YoY), results mainly driven by the Tan Duc Industrial Park's rapid fill rate. The company shows a healthy operating margin of 50.3% in 2007, an improvement over previous years' operating margins. We expect this trend to continue into 2008 as Development Phase 2 of the Tan Duc Industrial Park and the Tan Duc E.City start earning revenue.

Growth driven by the Tan Tao and Tan Duc Industrial Parks

ITA's consolidated revenue comes from property leasing and service fees from the Tan Tao and Tan Duc Industrial Parks. The rapid fill rate at the Tan Duc Industrial Park is the main driver behind the company's strong performance in 2007. The Tan Duc Industrial Park's contribution to the company's net profit is approximately 40%. This would change in 2008 when Tan Duc Industrial Park Phase 2 and the Tan Duc E.city go into operation.

Trading at an 07PER of 14.4x

At the current price of VND75,500, ITA is trading at an 07PER of 14.4x. This is cheaper than Vincom (VND90500, VIC.HM, Not Rated), which is trading at an 07PER of 17.4x.

Financial highlights

Year-end Dec 31	2005	2006	2007
Sales (VNDm)	313,192	352,763	918,302
Net profit (VNDm)	110,066	141,308	381,240
EPS (VND)	NA	3,140.2	5,258.5
EPS growth YoY (%)	NA	NA	67.5
Trailing PER (at price of VND75,500)	NA	24	14.4
BVPS (VND)	NA	12,686.71	33,034.75
PBV	NA	5.95	2.29
DPS (VND)	NA	NA	NA
Dividend yield (%)	NA	NA	NA
Operating margin (%)	42.7	49.6	50.3
ROE (%)	26.1	24.8	11.5

Source: Company data, Reuters

Company Visit

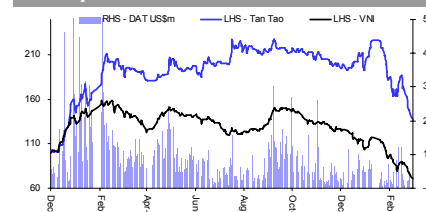
Not Rated

Price at 24 March 2008 (VND)	75,500
Stock code	ITA.HM
52-week range (VND)	75,500-125,217

Company background

The Tan Tao Investment Industry corporation operates in the construction/property industries. It develops and operates industrial parks and residential buildings serving employees working in the industrial parks. The company currently owns 100% of the Tan Tao industrial park, and 94% in Tan Duc Investment Company, which owns the Tan Duc industrial park. Revenue in 3Q07 mainly came from land leasing.

Price/price relative



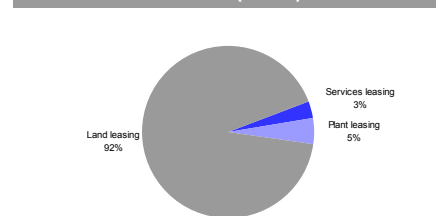
Correl (Tan Tao & VNI) 0.6012

Performance (%)	3m	6m	12m
ITA	-30.0%	-35.7%	-29.0%
VNI	-44.0%	-46.6%	-52.2%

Stock & financial data

	FYA
Market cap (VNDbn)	8,682
Market cap (US\$m)	543
Share outstanding	114,998,000
12M Avg daily volume (US\$m)	0.67
Largest shareholder: Dang, Quang Hanh	8.6%
Current room available to foreign investors	10.4%

Revenue Breakdown (3Q07)



Source: Company data, Reuters

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Tan Tao and Tan Duc Industrial Parks are the main sources of revenue

The Tan Tao Industrial Park has a land area of 442 hectares and is highly successful, with an occupancy rate of almost 100%. ITA receives revenue from the Tan Duc Industrial Park through its subsidiary (94%-owned), Tan Duc Investment Company. Development Phase 1 on this park has been completed and has an 85% occupancy rate. Development Phase 2 started in December 2007 and currently attracts a 25% occupancy rate. The Tan Duc Industrial Park's contribution to total profit is estimated at 40% in 2007.

First-mover advantage in the industrial parks industry

There are more than 100 industrial parks across Vietnam and 12 industrial parks in Ho Chi Minh City. The industry is highly competitive with the winners being the ones that are strategically located, offering modern infrastructure, and providing flexible services. ITA grows by identifying strategic locations and being the first to acquire these locations. For instance, the company's flagship development, the Tan Tao industrial park, is located in Binh Tan, just 12km from the center of Ho Chi Minh City. Currently, management is focusing on Long An province, the hub of Ho Chi Minh City and Mekong Delta provinces. The Tan Duc Investment Company is currently developing and operating the Tan Duc industrial park in the Long An province.

While ITA's management is confident that it has no competitors, we believe that its biggest competitor is Singapore's SembCorp Parks Holdings Ltd., which owns the highly successful Vietnam-Singapore Industrial Park in Binh Duong province.

Current projects and management strategy

- ITA is currently carrying out development of Phase 2 of the Tan Duc industrial park project and Tan Duc E.City project. Both are located in Long An Province.
- It also has 42 other projects which are currently in the pipeline.

Key macro/industry drivers and company drivers

- Growth driven by the Tan Tao and Tan Duc Industrial Parks –the Tan Tao and Tan Duc Industrial parks are ITA's current sources of growth and profitability.
- Short-term growth depends on the Phase 2 development of the Tan Duc Industrial Park and the completion of the Tan Duc E.City project.
- Long term growth could stem from ITA's planned new investments – With a total of 42 projects in the pipeline, we expect ITA's long term growth to stem from its planned new investments.

Key risks

- EPS dilution due to additional share issues is a key risk for ITA. In order to finance new investments, management plans to issue more shares in 2008. The number of shares outstanding would then double to 200mn from 100mn in 2007. This may lead to EPS dilution if the profit from new projects were not enough to compensate for the increase in the number of shares outstanding.
- Management may be moving too quickly. Due to the nature of its business, ITA receives more revenue in the early days of industrial park completion and less at later stages, due to land leasing. Thus, new projects are needed in order to maintain growth. But having around 42 projects across the country is demanding, given that only two of these are currently generating revenue for the company.

Figure 41: Peer comparison

Name	RIC	Country	Market Cap USDm	Share Price LC	Headline EPS 2007	P/E 2007	P/B 2007	ROE 2007 %	DPS 2007
Tan Tao	ITA.HM	Vietnam	543	VND75,500	VND5,258.5	14.4	2.3	11.5	Na
Vincom	VIC.HM	Vietnam	630	VND84,000	VND4,838	17.4	3.6	14.6	Na

Source: Company data, Reuters

Figure 42: Key company information**Tan Tao Investment Industry Joint Stock Co**

Last results published	4Q07 – 30 Jan 08	Chairman	Dang, Thi Hoang Yen
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Source: Company data, VSE